



Waveney Tax Solutions

VAT

Flat Rate Scheme

The VAT Flat Rate Scheme for VAT is available to smaller businesses with a VAT taxable turnover of less than £150,000 and offers a simplified method of calculating the amount of VAT a business must pay over to HM Revenue & Customs (HMRC).

Usually a business calculates how much VAT to pay or reclaim based on the difference between the VAT they charge their customers and the VAT they must pay on their purchases. With the Flat Rate Scheme a business pays a fixed rate of VAT to HMRC (the rate is determined by the nature of the business), however the business cannot claim the VAT it pays on purchases except for certain capital assets over £2,000.

Advantages of using the Flat Rate Scheme

In the first year of registration under the scheme, you get a one percent discount on the flat rate percentage otherwise applicable to your business. This discount finishes on the day before the first anniversary of being in the scheme.

Another benefit of using the scheme is the time saved recording VAT on sales and purchases, as there is no need to analyse the VAT paid on purchases between what you can and can't claim. This should help to take some of the stress out of completing VAT returns and also reduces the chances of making mistakes.

Paying a flat amount over to HMRC based on the invoices you raise means you can easily calculate how much VAT you owe on takings, so it can also help you to manage cash flow.

Potential disadvantages of the scheme

The VAT Flat Rate Scheme will not be advantageous for all businesses. The flat rate percentages are averages designed to take into account zero-rated and exempt supplies, as well as incorporating an allowance for the VAT being paid on purchases.

Some businesses could end up paying more VAT under the scheme than they would using standard VAT accounting and the scheme may not be right for your business if:

- most of your purchases are standard rated items
- you currently regularly receive a VAT refund under normal VAT accounting
- the business makes a lot of zero-rated or exempt supplies.

It is worth noting that the Flat Rate Scheme cannot be used in conjunction with VAT Cash Accounting, the Retail Scheme or the Margin Scheme for second-hand goods. It can, however be used in conjunction with the Annual Accounting Scheme.

Eligibility for the scheme

To apply for the Flat Rate Scheme you must have reasonable grounds for believing that your taxable turnover (excluding VAT) in the next year will be £150,000 or less. Once you have joined, you can remain in the scheme providing that your total income (including VAT) for the year does not exceed

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£230,000. NB Although you become eligible for the scheme based on the level of your taxable turnover, the test of continuing eligibility is based on all income, including exempt income.

To calculate turnover to see if you are eligible, you could use the turnover declared on your previous 12 months' VAT returns if you are already registered, but don't forget to take into account any expected changes.

If you are not VAT registered when you apply for the scheme, you can forecast your turnover by looking at the 12 month period of trade before you register, use information on business plans or any other reasonable method.

When calculating turnover to see if you are eligible, you must not include any VAT or any anticipated sales of capital assets, but will need to include:

- the value of your standard rate, zero rate and reduced rate supplies
- your turnover from the sale of second-hand goods sold outside the margin scheme
- any sales of investment gold that are covered by the VAT Act, Section 55.

NB Not all businesses are able to adopt the Flat Rate Scheme and your business will not be eligible if:

- you have previously used it and left the flat rate scheme in the last 12 months
- you have committed a VAT offence in the last 12 months, eg accepting a compound penalty offer or been convicted for VAT evasion
- you have joined, or were eligible to join, a VAT group in the last 24 months
- your business registered for VAT as a business division in the last 24 months
- the business is closely associated with another business
- the business has already joined a margin or capital goods VAT scheme

How to apply

If your business is eligible to use the Flat Rate Scheme and you believe it will be beneficial, you can apply to join online when you first register for VAT on the HMRC website here: <https://online.hmrc.gov.uk/registration/newbusiness/business-allowed>. Part of this process involves creating a Government Gateway Account, called a VAT online account, which is needed for the submission of your VAT returns.

Businesses already registered for VAT can apply to join the scheme by post or email using form VAT600 FRS, which can be found on the HMRC website here:

<https://www.gov.uk/government/publications/vat-application-to-join-the-flat-rate-scheme-vat600frs>

You can also apply by telephone by calling the HMRC VAT Helpline on 0300 200 3700.

The application will require a few details about your business, including the main business activity and the flat rate percentage you believe should apply. If your business activity falls into more than one sector, you should choose the main one that applies.



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The flat rate percentages are shown below – don't forget that there is a one percent discount applied for the first 12 months of being in the scheme.

Type of Business	Flat Rate %	Type of Business	Flat Rate %
Accountancy/Bookkeeping	14.5	*Manufacturing not listed elsewhere*	9.5
Advertising	11	Manufacturing yarn, textiles or clothing	9
Agricultural services	11	Membership organisation	8
Any other activity not listed elsewhere	12	Mining or quarrying	10
Architect, surveyor, civil & structural engineer	14.5	Packaging	9
Boarding/care for animals	12	Photography	11
Business services not listed elsewhere	12	Post Offices	5
Catering services including restaurants & takeaways	12.5	Printing	8.5
Computer & IT consultancy & data processing	14.5	Publishing	11
Computer repair services	10.5	Pubs	6.5
Entertainment or journalism	12.5	*Real estate activity not listed elsewhere*	14
Estate agency or property management services	12	Repairing personal or household goods	10
Farming or agriculture not listed elsewhere	6.5	Repairing vehicles	8.5
Film, radio, television or video production	13	Retailing food, confectionery, tobacco, newspapers or children's clothing	4
Financial services	13.5	Retailing pharmaceuticals, medical goods, cosmetics or toiletries	8
Forestry or fishing	10.5	*Retailing not listed elsewhere*	7.5
General building or construction services	9.5	Retailing vehicles or fuel	6.5
Hairdressing and beauty services	13	Secretarial services	13
Hiring or renting goods	9.5	Social work	11
Hotel or accommodation	10.5	Sport or recreation	8.5
Investigation or security	12	Transport or storage, including couriers, freight, removals and taxis	10
Labour only building or construction services	14.5	Travel agency	10.5
Laundry or dry-cleaning	12	Veterinary medicine	11
Lawyer or legal services	14.5	Waste or scrap dealing	10.5
Library, archive, museum or other cultural activity	9.5	Wholesaling agricultural products	8
Management consultancy	14	Wholesaling food	7.5
Manufacturing fabricated metal products	10.5	*Wholesaling not listed elsewhere*	8.5
Manufacturing food	9		

NB 'Labour-only building or construction services' means building services where the value of the materials supplied is less than 10% of the turnover for those services. If more than this amount, the business is classed as 'General building or construction services'.



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Capital Expenditure

Although you will not reclaim VAT on most purchases, you can reclaim the VAT you have been charged on a single purchase of capital expenditure goods where the amount of the purchase, including VAT, is £2,000 or more. If the supply is more than one purchase, for services, or under £2,000 including VAT then no VAT is claimable.

Any qualifying capital expenditure is dealt with outside the Flat Rate Scheme and you claim the input tax in box 4 of your return.

Leaving the scheme

You can leave the scheme at any time if you feel that it is no longer advantageous, however you must leave the scheme if:

- on the anniversary of joining your turnover exceeded £230,000
- you believe your turnover will exceed £230,000 in the next 30 days alone
- you expect your turnover to exceed £230,000 in the next 12 months
- you become a tour operator and have to use the Tour Operator's Margin Scheme
- you intend, or expect, to buy assets that are covered by the capital goods scheme
- you become eligible to join an existing VAT group treatment, or register in the name of divisions
- you become associated with another business
- you decide to account for VAT using the second hand margin scheme or the auctioneer's scheme

You must inform HMRC in writing of your wish to leave the scheme – they will respond and confirm when you can leave.

If you deregister, you are treated as leaving the scheme the day before your deregistration date and you must account for output tax on your final VAT return for:

- sales made on the last day of registration (which must be accounted for outside of the scheme)
- the value of any capital expenditure goods or any pre-registration stock, on which you recovered input tax at the time of registration and which are still on hand at the date of deregistration

Need help?

The above is an outline of the Flat Rate Scheme, but you can find extensive guidance explaining all of the rules for administering the scheme in the HMRC booklet VAT Notice 733. If you have any queries or would like assistance with reviewing your business to see if this scheme would be advantageous, please give Waveney Tax Solutions a call on 01502 370620 or 07919 924273, or alternatively email us at nina@waveneytaxsolutions.co.uk.